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TAGS: [PGOV](#) [PREL](#) [SENV](#) [KGHG](#) [ENRG](#) [EPET](#) [CA](#)

SUBJECT: DEPUTY SECRETARY'S MEETING WITH CANADIAN RESOURCE
MINISTER LUNN N GREENLAND

Classified By: Regional Environmental Officer Erik Hall.
For reasons 1.4 (b&d).

¶1. (C) Summary: Deputy Secretary Negroponte met with Canadian Minister of Natural Resources Gary Lunn on May 28 following the Arctic Ocean Conference at Ilulissat, Greenland. They discussed the recent U.S. listing of the polar bear as a threatened species, energy resource exploitation in the Canadian Arctic, climate change and carbon markets, trade and legal issues. End Summary.

¶2. (U) Background: The Deputy Secretary was accompanied in this meeting by Ambassador Cain, OES A/S McMurray, Legal Advisor Bellinger, D Special Assistant Wittenstein, and REO Hall (note-taker). Minister Lunn was accompanied by Ambassador to Denmark Fredericka Gregory; Legal Advisor Alan Kessel; Claude Carriere, Associate Deputy Minister of Natural Resources; and Monique Carpentier, DirGen in the Ministry of Natural Resources.

Polar Bear Listing

¶3. (C) Minister Lunn explained that Canada's decision on whether to list the polar bear was different from that of the U.S., since the polar bear hunt was economically important to some Canadian communities. A bear trophy could bring up to \$50,000 from hunters. Lunn said Canada had entered into an MOU with the U.S. Department of Interior over protection of the polar bear, which had also raised some concerns among indigenous communities of the far north. A/S McMurray said the U.S. was interested in continuing these discussions.

Energy in the Canadian Arctic

¶4. (C) After agreeing the outcome of the conference had been positive, Lunn proceeded to outline tremendous potential for Canadian energy exploitation to supply the U.S. market. Canada is working with the U.S. to open up the Mackenzie River basin bordering Alaska, he said. Gas hydrates and methane potential is vast in the far north (10 times Canada's oil sands reserves), if methods can be developed to exploit it. Joint research is ongoing with Japan, he said. Asked by the Deputy Secretary about cooperation with the U.S., Lunn said he had discussed the issue with Energy Secretary Bodman. Canada has the potential to supply 25 percent of U.S. energy needs, he said.

NAFTA/Trade

¶ 15. (C) The Deputy Secretary acknowledged that border "thickening" with Canada was an unfortunate consequence of national security concerns. Lunn said NAFTA had given Canada a new relationship with Mexico, but had complicated Canada's border relations with the U.S., its sole market for energy due to infrastructure constraints. Canada is working on diversifying to permit export of its energy to Asia, to cut the "captive market discount" estimated at U.S. \$10/barrel of oil. Canada is now considering seeking bilateral discussions with the U.S. on border trade issues, outside of NAFTA. Kessel said Canada is working on a police ship rider program with the Coast Guard, which is nearing agreement. Lunn said that for 32 U.S. states, Canada is the number one trade partner. PM Harper and President Bush had held positive discussions in New Orleans, he said.

Climate and Carbon Markets

¶ 16. (C) Lunn admitted that Canada's greenhouse gas emissions had risen 32-33 percent since 1990, while the U.S. increase during the same period was 17-18 percent. He said that in the future, Canada's stringent carbon constraints would increase the cost of Canadian fossil fuels. All new oil collected from sands as well as coal extraction must meet new carbon capture and storage requirements from 2012. Canada wants a "real" carbon trading system, "unlike Europe and Russia's 'hot air' system," he said. Lunn expressed hope that a U.S.-Canadian carbon trading system will evolve. The largest carbon sequestration and storage project in the world was transporting 10 million metric tons of carbon emitted

from U.S. power plants in Wisconsin to Saskatchewan, where it was being injected into oil fields where 99% would be captured for at least 5,000 years.

Legal Issues

¶ 17. (C) The Deputy Secretary raised the importance of resolving outstanding boundary disputes between Canada and the U.S., saying our respective legal advisors are "talking about talking." Legal Advisor Bellinger asked whether Canada had heard from Sweden, Finland or Iceland, who had not been invited to this conference. Kessel said the issue had come up at the first meeting of the Arctic Council coastal states in Oslo in November. The Canadian view was that if the other three Arctic Council members had an interest, it was better to invite them. Keeping the group limited to the five littoral states also risks appearing to exclude the indigenous permanent participants of the Arctic Council. The Deputy Secretary said he understood the Danish rationale for use of the five as an Arctic Council core group on certain issues, but not for everything.

¶ 18. (U) The Deputy Secretary's party reviewed this cable.
CAIN